

**SGN Customer and Stakeholder Engagement Group
Annual Report 22 / 23**

1 November 2023

SGN Customer and Stakeholder Engagement Group – Annual Report 22 / 23

Executive Summary

We are very pleased that SGN's Customer and Stakeholder Engagement Group is now firmly established following a review of its membership and the appointment of two new members during the year. SGN have made it clear that they see value in an enduring role for the Group, recognising the skills and experience that we bring, and we welcome their openness in the discussions we have with them. With a clear forward agenda stretching through 2023 we have been able to contribute significantly to our twin roles of holding SGN to account for delivery of their GD2 plan and providing constructive challenge as they develop their Business Plan for the next price control.

We are also pleased with the positive relationship that we have developed with Mark Wild who was appointed as CEO in August 2022. He has given generously of his time and been very open with us – as well as being evidently interested in our views and insights.

We are obviously disappointed in SGN's performance on a number of fronts in 2022/23 – around emergency response times, which is a key safety issue, and on the level of repex delivered in the South which is both a safety issue but also a crucial contributor to SGN reducing its own carbon emissions. That said, SGN have been open and honest with us about the resourcing challenges they have faced in the South and Mark Wild has been clear from day one that addressing operational performance was his top priority. In particular we have been pleased with the efforts being put into bringing in a more diverse workforce – a challenge that we had raised in our scrutiny of the GD2 plan. As well as being important in its own right, improving diversity opens up a much wider recruitment pool to help in tackling the resource challenge. We understand that SGN now have 400-500 new recruits in training and that 23% of their latest intake of front-line apprentices are women, which is welcome progress.

Global supply chain challenges have also played a part, for example in the failure to meet the target on electrification of their operational fleet. However other GDNs have made more progress on this and we know SGN are looking to see what lessons they can learn.

We will continue to challenge SGN to ensure that they are doing all they can to get back on track across all these areas – and indeed have had confirmation that on emergency service they are in a good position in terms of their performance going into this winter.

In terms of customer and stakeholder engagement we have seen SGN making very effective use of grass roots engagement to help with building consumer support for their H100 Fife hydrogen project. Their Vulnerability Steering Group has enabled them to have a highly effective approach to partnership working with 63% of the GDN collaborative projects being led by SGN. On the environment front SGN have gained real insights from their expert Environmental Advisory Panel on issues such as waste management and Scope 3 emissions, which are challenges across a number of sectors. Setting up these panels was a commitment in the GD2 Plan and members of the CSEG sit on these groups as (active) observers.

SGN's consumer focus is reflected in what we welcome as strong performance on the customer satisfaction metrics where they are now achieving 9/10 in both their Scotland and southern regions, with Scotland the leading GDN – a major achievement.

We are also pleased that in planning their consumer engagement for the next price control period SGN took on board our steers around the approach to be adopted and have been moving ahead with

this significant programme of research in advance of Ofgem confirming the nature of the next price control.

SGN have also supported us as a CSEG more recently as we have looked to innovate in bringing together stakeholders to debate the strategic challenges that SGN needs to think about in developing its Business Plan.

In our early discussions with SGN around its Plan – and in developing our 2023 work programme – we tried to tease out the “big questions” that would need to be addressed and have also fed into the Ofgem consultation on the future of network regulation.

We were pleased with the initial messages that we heard from Mark Wild about moving to a more mature and nuanced view of energy futures rather than advocating for 100% hydrogen for domestic heat. That said we still do not have a clear picture of the range of scenarios that SGN will be planning for.

As a CSEG we have consistently encouraged SGN to develop a more geographically granular picture of where hydrogen is more (or less) likely to play a role. We have also been encouraging SGN to start to explore what would be involved in a long-term scenario where hydrogen played less of a role to help inform near term decisions on network investment and also wider policy debates. Innovation funding could be used to help build understanding and find more cost-effective solutions to some of the challenges gas networks may face in a world of reduced gas demand. It is vital that gas networks are kept safe while there is gas flowing through them and thought needs to be given to the practical and bill implications of that absolute requirement.

We look forward to working with SGN over the coming year to help in developing their Business Plan – and to contribute to Ofgem’s assessment of the Plan in whatever way they would find most helpful. We are aware that time is very tight and hope that we will get more clarity from Ofgem over the coming months on what they are looking for.

Introducing the CSEG

While SGN was developing its GD2 Business Plan it had a Customer Engagement Group (CEG) which provided challenge to the company and assurance to Ofgem. In November 2021 Ofgem wrote to the companies and CEG chairs setting out its expectations that the companies would have an enduring CEG which would, among other things provide

“Independent periodic reporting to the company on the price control commitments the CEG or UG has been scrutinising. That reporting should be made public so that best practice can be shared and used by CEGs and UGs to drive improvements in performance across the sector”.

This report is intended to meet that expectation.

In the light of the Ofgem letter, SGN took the decision in January 2022 to combine the CEG and the previous Stakeholder Advisory Panel and asked Maxine Frerk (the original CEG chair) to chair the new Customer and Stakeholder Engagement Group. The CSEG had its inaugural meeting in March 2022. The Terms of Reference for the Group reflect the Ofgem guidance in its November 2021 letter.

A full review of the membership of the new combined group was carried out during 22/23 and we welcomed two new members in November following open recruitment. The current members of the CSEG – which are evenly divided between Scotland and the South - are:

Maxine Frerk (Chair)

Lucy McTernan (Deputy Chair)

Syed Ahmed

Eddie Lafferty

Rosie McGlynn

Matt Copeland (NEA)

Simon Gill – from November 2022

Martin Silcock – from November 2022.

We would like to thank previous members of the CSEG (Christine Tate, Matthew Pencharz and Claire Whyley) for their contributions to CSEG in the first part of the year – and as members of the individual groups before that.

Our engagement in 22 / 23

During 22 / 23 we held three full day meetings – two virtual and one face-to-face which covered a wide range of topics agreed through discussion between SGN and the CSEG chair. At each meeting we now seek to split our time between forward looking items (preparing for GD3) and our role in holding SGN to account for delivery of GD2. As requested in our last CSEG report we now have a forward agenda for the year ahead. The topics covered in 2022/23 are summarised below.

- 27 June 2022 (Teams):
 - SGN Corporate Strategy
 - Annual RRP update

- ESG Strategy and Framework
- Energy Futures and gas network decarbonisation
- Environmental Action Plan update
- Customers – vulnerability and fuel poor support; customer satisfaction
- 21 November 2022 (Face to face with overnight stay):
 - Dinner with new CEO Mark Wild
 - GD3 process and Ofgem open letter
 - Proposals for GD3 customer engagement
 - CSEG annual report and messages for board
 - Crisis support for this winter
 - Biomethane planning
 - Resourcing challenges
 - Forward agenda for 2023
- 20 February 2023 (Teams):
 - Future of Energy Strategy
 - Risks of not meeting standards
 - January Reopener submissions
 - Biomethane Re-opener
 - BAU engagement
 - Repurposing FPNES funding
 - Strategic questions for GD3
 - GD3 research and engagement approach
 - Regulation update

Our reflections: SGN's approach to engagement

Delivering on its business plan commitments

One of the key commitments around engagement in the SGN Plan was the creation of two new advisory groups on vulnerability and on the environment. We are really pleased that SGN moved very quickly to put these in place with the Vulnerability and Carbon Monoxide Steering Group established in July 2020 and the Environmental Advisory Panel established in January 2021. These groups allow SGN to draw on in-depth expert advice in these two crucial areas. A member of the CSEG was nominated to join each group as an (active) observer to help ensure the work of these different groups was informed by the previous engagement on the Business Plan and to help the CSEG in its role of monitoring performance. These groups reviewed and provided views on the SGN [Vulnerability and Carbon Monoxide Report](#) and the [Annual Environmental Report](#) respectively (see below).

In its Business Plan SGN also committed to strengthen its engagement with key groups where the CEG had noted that it would have liked to see it do more. One area was future consumers and while SGN did establish a Future Thinkers panel of 14-16 year olds, this was discontinued although SGN have now explicitly included future consumers in their latest GD3 research. The other area was business customers. Engagement with larger industrial customers has increased, primarily through SGN's unregulated business and its work on hydrogen but there is more that SGN could do in this space. We have made clear that we hope that as it builds up its engagement for GD3 SGN will strengthen its engagement in these two areas.

In its Business Plan SGN also committed to engage further on what it saw as 10 priority challenges. While we recognise that priorities shift, we would encourage SGN to revisit these 10 challenge areas as a checklist to ensure that it is engaging across the full range of issues.

Wider Business Engagement

Reflecting the fact that it was a gap in our 21/22 programme, we had a specific session this year on SGN's approach to "BAU" engagement including the engagement that it does for example around its planned works, which has historically been a strength. For example, they worked with a local school where children have special needs and developed an approach using symbols to help explain about safety around the streetworks. They have also taken forward the collaborative streetworks project that we supported with a project in Sidcup which replaced water pipes in parallel, reducing disruption.

We also talked about the engagement they are doing to prevent third-party damage to their network, promotion of safety messages around excavation for home extensions and also collaboration with local resilience fora. The CSEG welcomed these initiatives and encouraged SGN to look at measuring the impact of some of this engagement (eg the impact on third party damage) to ensure it is being as effective as possible.

We have also discussed the significant engagement that SGN is doing with local authorities in Scotland, looking at developing regional plans and supporting Scotland's earlier 2045 net zero date. Scottish local authorities have a requirement to develop local heat and energy efficiency strategies, with significant interest in the potential role of green hydrogen to make use of Scotland's renewable resources (and obligations also to consider heat network zoning). In the South, local authority engagement is more fragmented, with lower awareness generally around energy issues. However, SGN are increasingly starting to engage with local authorities there too. We hope that going forward

more can be done to engage jointly with DNOs to help develop whole system local area energy plans.

On future energy issues, two members of the CSEG who live near Fife have been able to observe various of the engagement events for H100 Fife. They have been very impressed by the quality of the engagement noting that there is a spirit of openness with the community and a very strong trusted relationship developed through schools, local grass roots organisations and the council. We see this reflected in the fact that there has been strong local community support for this project. The CSEG encouraged SGN to capture the lessons learned around this engagement to help inform future projects.

Preparing for GD3

We are pleased that SGN has been proactively thinking about the engagement needed for GD3 ahead of Ofgem confirming its approach, given the timescales involved in commissioning research. We have been kept updated on their plans for bringing an agency on board to work with them and have provided scrutiny and challenge around the approach they intend to take. In particular we encouraged SGN to identify gaps in their knowledge and to think strategically from the outset about the insights that would help inform their Plan – rather than simply looking to provide the “evidence” that they assume Ofgem would want to see. Given the volatile external context, we also cautioned that research carried out now might be out of date in two years’ time and recommended a more agile approach to testing priorities that makes use of multiple touch points. We are pleased that SGN has taken this feedback on board.

Board interactions

The original expectation was that the CSEG chair would report through the new Stakeholder and ESG Committee at Board level. That has not worked out but the CSEG chair has had several informal conversations with Laura Sandys (the NED who chairs that Committee) which have been very helpful. The Chair also had the opportunity to meet the full board (including the new shareholders) to talk through last year’s annual report – and will do so again this year. With Laura Sandys moving on – and with the start of planning for GD3 - we would be keen to revisit how to strengthen the linkages with the Board. The feedback we have from SGN colleagues is that the new shareholders are placing a strong emphasis on longer term opportunities and on near term carbon emissions which is welcome.

Mark Wild as CEO has given generously of his time – joining the CSEG for dinner and a follow-up discussion at its face-to-face meeting in Edinburgh, and also regularly joining the CSEG meetings for an update session and broad ranging Q&A. We look forward to continuing that engagement.

Aligning reporting

In preparing this report the CSEG have looked at [the Annual Report and Accounts](#) and the [Stakeholder Report](#) published alongside regulatory datasheets submitted to Ofgem. We have also seen the [Vulnerability and Carbon Monoxide Report](#) and the [Annual Environmental Report](#).

While these reports ostensibly have different purposes, they do cover a lot of common ground and to get a complete picture on something like leakage we needed to look across a number of the reports.

As a CSEG we had talked about SGN's decision to adopt the World Economic Framework (WEF) model for ESG reporting and welcomed the inclusion of an ESG focus in the financial reports alongside requirements from the TCFD (Taskforce on Climate Financial Disclosures).

However, we would encourage SGN to look at the range of its reporting obligations to consider what scope there is for aligning them to save on effort internally and to make it easier for stakeholders – but without losing the detail that some of the individual reports provide.

Operational delivery

Following the conclusions from our 21/22 report we have put more time this year into looking at operational performance and SGN have been very open with us about the challenges they have faced.

We also had a session after the year end, once performance data was available, where SGN talked us through the key regulatory reporting metrics as well as the key Annual Environment Plan (AEP) metrics which the Environmental Advisory Panel had been using to track performance.

While our Terms of Reference refer to holding SGN to account for delivery on commitments not covered by the Ofgem RIGs¹ we hope it is helpful (to SGN, Ofgem and wider stakeholders) to share our reflections on their performance on areas that Ofgem will also be scrutinising but where we have taken a particular interest because of their importance to customers and stakeholders.

Emergency service – Getting to gas leaks within the statutory timeframe is clearly a priority and historically SGN has performed well on this metric. However high volumes and resource issues, in particular in the South, have resulted in SGN failing these metrics in 22/23 – in some cases by quite a margin (eg reaching only 93% of uncontrolled escapes within an hour in the South against a target of 97%). The risks of missing this target were flagged to the CSEG at an early stage and it was clearly a priority for the business but they were unable to turn it around in time. Our understanding is that performance is now back on track ahead of this winter.

Repex – We note that SGN has underperformed against its targets for iron mains replacement (repex) again in 22/23 with an underspend of 14% (but where it is not clear what this represents in terms of volume shortfall given rising costs). As a CEG we had actually pressed SGN to include an accelerated repex programme in its Business Plan but this was turned down by Ofgem. Given this history we are disappointed with SGN's performance. We welcome SGN's openness about the problems they have encountered including changing shift pattern requirements and, particularly, resourcing problems in the South. SGN hope to be able to catch up over GD2 but have acknowledged that there is some delivery risk in the South. We will look to track performance in this area more closely going forward given its importance from both an environmental and safety perspective.

Unplanned interruptions – We are aware that SGN has incurred a penalty for its performance on unplanned interruptions. We are satisfied that this is the result of unavoidable problems with a single multi-occupancy building in Scotland where there were delays in getting through the various planning stages. We also heard about another example in the South where SGN had been unable to secure the necessary access or planning permission to replace the riser. We share SGN's concern

¹¹ Regulatory reporting instructions

around the regulatory framework for multi-occupancy buildings which they would like to see addressed in GD3.

Cyber and data – Cyber risks have been noted as a growing concern and focus for Ofgem. We were therefore keen to understand SGN’s state of readiness. We were hugely reassured by the approach that SGN are taking (including acknowledgment of this being a people issue as much as a technical one). We also discussed SGN’s plans for open data, noting that Ofgem’s Data Best Practice Guidance was not in place at the time of GD2 Business Plans which meant GDNs had been slower to adopt this agenda – perhaps also reflecting lower levels of external interest in their data.

We have also heard from Mark Wild about his ambition to “modernise” SGN in terms of its internal processes and systems. This should help with some of the operational challenges and efficiency and we look to hearing more as these plans develop.

Safety – Safety is a theme that is coming through more strongly with Mark Wild talking about his aspiration to be a “zero harm” organisation. The CSEG welcome this focus which reflects the prioritisation that customers and stakeholders always place on safety.

Diversity / recruitment – One area that we had previously pressed SGN to do more work on – including broadening its engagement – was diversity and in particular how it could attract a wider pool of potential recruits. From the discussions we have had this year it is clear that SGN has made real strides in this area, reflecting the priority that Mark Wild has attached to the people agenda. Given the challenges SGN has faced with resourcing in the South, these efforts to attract applicants from a more diverse pool, and to use local stakeholder expertise in thinking how best to do this – is a clear priority. We were pleased to hear that they now have 400-500 new recruits in training and that 23% of their latest intake of front-line apprentices are women.

The need for greater emphasis on skills and training has also been acknowledged with a welcome step up in the numbers of graduates and apprentices. SGN will replenish its skills base by taking on 80 apprentices and 20 graduates a year for the next 10 years. SGN are also taking the lead across GDNs in looking at the need for a national training centre and we were pleased to hear more recently that Mark Wild has been appointed as Chair of the Energy and Utility Skills Partnership, reflecting his commitment to this agenda.

Customers and vulnerability

Customer Satisfaction (CSAT) - We were pleased to see that in Scotland SGN again had the highest CSAT scores across all GDNs and that they had met their commitment to achieve 9/10 in the South. With ever rising customer expectations this is a positive result, reflecting SGN’s commitment to understanding what matters to customers.

Fuel Poor connections - With the government no longer funding the in-home works (ie new gas boilers) it is inevitable that SGN have had to scale back their targets significantly for GD2. Given that this was a key element of SGN’s support for vulnerable customers in their Business Plan, we are pleased that Ofgem have agreed to allow this expenditure to be redirected to other forms of help with reducing heating costs for vulnerable households, although we were disappointed that the allocation of funding did not reflect the higher levels of fuel poverty in Scotland (and SGN’s original ambitious FPNES programme). We are also pleased with the proactive role that SGN played to get that funding redirected. Through 2023 we have engaged with SGN around their readiness to make use of additional funding as part of their wider UIOLI pot (see below) and were confident that, based

on the strong partnerships they had in this space, they were well placed to make effective use of this significant additional funding.

Vulnerability UIOLI – Vulnerability UIOLI – The Vulnerability and Carbon Monoxide Steering Group (VSG) has been valuable in helping SGN think through how best to make use of the UIOLI (use it or lose it) funding pot that Ofgem made available for supporting vulnerable customers and raising awareness of carbon monoxide risks. Their focus has been on maximising the impact of every pound spent through co-creation with partners already working on the ground with communities and families and using evidence to identify the areas of greatest need.

“The VSG has wide specialist knowledge and experience in vulnerability, fuel poverty, gas safety and supporting under-represented and harder-to-reach customer groups. By bringing evidence and insights into the impacts of societal changes on vulnerable communities, the group has provided guidance and helped SGN to quickly adapt to rapidly changing customer needs and reach out to those most in need.” Christine Tate, Chair VCMA Steering Group

In its Business Plan SGN committed to help 250k vulnerable customers to use energy safely, efficiently, and affordably over the course of the five-year price control period. We are delighted that at the end of year two they have already met their year three target, having supported over 171k households in these two years – of which c 100k in 22/23. The unprecedented increase in energy prices has had a catastrophic impact on many vulnerable households. SGN have helped support these customers through the partnerships they have formed, using the three-tier funding model, co-created with stakeholders as part of the Business Plan, to allocate their resources where it will have most impact. Since the start of RIIO-GD2 they have commenced 51 regional VCMA initiatives and delivered £14.3m in social value.

We recognise that SGN has played a sector leading role in this area having led the thinking on 15 out of 24 of the cross GDN schemes and also looking to involve the DNOs and water companies where they can. They have also nurtured new collaborations amongst their charity partners with an excellent partners' online conference which is being repeated shortly.

In a discussion around their winter 22/23 preparedness we were very pleased to see the work that was going on with partners and the role played by staff in the field in identifying those in need. SGN then ensures people are on the priority service register, and are able to access independent energy advice, CO alarms, food vouchers and fuel vouchers. The CSEG thank the team for the great work and life changing impact they are having.

Environment

Environmental Action Plan – Drawing on the expertise of its Environmental Advisory Panel, SGN has put a welcome emphasis on quantifying its Scope 3 emissions, on waste management and biodiversity. These were not areas that the CEG focussed on particularly in the development of the Business Plan but are pleased that SGN is looking at how to push forward in these areas which we see as of growing importance. We recognise that SGN has not reduced its Scope 1 and 2 Business Carbon Footprint (excluding shrinkage) as much as anticipated which reflects supply chain challenges with electric vehicles which all GDNs have experienced.

Leakage – Leakage had been a significant area of focus for the CEG in the development of the Business Plan. We had heard a clear message from consumers during engagement on the Environmental Action Plan that SGN should “just fix the leakage” given that, at the time, it accounted for 97% of SGN’s Business Carbon Footprint (Scope 1 and 2). As well as advocating an accelerated replex programme, we had also pressed SGN to look at how innovation could help in this area. We were pleased that Ofgem did allow funding for the innovation projects which we are glad that SGN are progressing².

While we had hoped that UK Government signing up to the COP26 Methane Pledge might lead to greater Ofgem attention being paid to the issue, this does not appear to be the case.

In terms of performance against the GD2 leakage incentive SGN have outperformed their target and hence have earned a small financial reward (£0.42m). However, this reflects the narrow scope of the new incentive as the underperformance on replex is not taken into account. Overall, SGN’s shrinkage and leakage fell by 3.4% year on year but it is unclear how this compares with forecast. Even if SGN catch up on their replex programme over GD2 there is no penalty associated with the additional methane in the atmosphere as a result of the delays in the replex programme.

We carried out a deep dive on SGN’s performance in this area through the Environmental Advisory Panel but because leakage is modelled rather than measured it is quite complex to understand and none of SGN’s published reports provide a clear explanation of the impact of the different drivers (replex, pressure management, MEG). We therefore very much hope that Ofgem will give this the necessary focus in its own review of cross GDN performance.

Moreover, based on the presentation from the SGN team, there is also an issue that some of the positive actions they are taking to manage shrinkage are not given credit in the modelled figures. We have agreed that CSEG should have a deep dive on this issue as part of its GD3 preparation and will be looking to Ofgem to strengthen the incentives in this area, including pressing GDNs to make more use of the technology now available (eg drones / AI) to identify and more accurately measure leakage.

Energy Futures

Biomethane – Another area that we had pressed SGN to be more ambitious on in their Business Plan was biomethane injection (as another route to heat decarbonisation at least in the short to medium term – and increasingly also seen as supporting security of supply).

Although there were no new connections in 22/23 – reflecting the inevitable lag following announcement of the government’s Green Gas Support Scheme - it is clear that there are a number of significant projects that are under development. This leaves SGN well placed to meet its GD2 ambition of the equivalent of 450k homes to be served with biomethane.

In addition to the number of connections we had encouraged SGN to look at what more it could do to avoid biomethane injection being constrained off at certain times of year. On that basis we are

² For example, SGN have invested in stent bags which allow gas to be captured in the event of a significant leak and are on track with their remote pressure management project. They also have an innovation project aimed at improving the shrinkage and leakage model.

pleased that the PCD on biomethane improved access³ (which we had strongly supported) is on track as we saw at the deep dive we held during the year.

£10m worth of funding was available to support three forms of intervention covering existing and new sites. The driver was to increase biomethane injection which was beneficial in terms of security of supply and decarbonisation. While there are a number of opportunities for interventions, SGN was focusing on propane management, smart network control, and reverse compression.

As part of the discussion, we also provided views on SGN's approach to the choice of the 10 sites. Noting that the funding was for demonstrators, the CSEG encouraged SGN to take account of the opportunities to maximise learning (not simply the immediate CBA of projects).

As a part of this we welcomed that SGN are looking at 'propane management' as using un-propanated gas through blending has big benefits to end users in terms of both cost and avoiding the counter-intuitive approach of adding a fossil fuel to biomethane to meet existing standards on calorific value.

In particular we were excited to hear about the proposal for new biomethane sites in Invergordon, where a proportion of the gas produced could be compressed and transported to Wick and Thurso SIUs. The biomethane production at Invergordon is from distillery waste so is a circular economy approach. SGN would take gas off the SGN network to compress and fill road tankers to transport to Wick and Thurso which hugely reduces the cost associated with the logistics chain currently needed to ship gas from the Isle of Grain. It would also deal with a constraint on the Invergordon network that would prevent the biomethane plant from injecting its full capacity by making use of a road tanker up to Wick and Thurso in winter (when the network is constrained) with SGN talking us through the range of transportation / injection options they were considering. Finally, it would allow un-propanated gas to be used. Ultimately, the plan is to submit a net-zero reopener for the capex associated with the project and we look forward to getting an update as this work moves ahead. In particular the CSEG raised questions around the commercial arrangements as this project will benefit the biomethane producer (as well as helping reduce costs and carbon at the SIUs).

Standing back, the CSEG recognise that net zero requires a patchwork of solutions and that biomethane has a niche role (max 5-10%). However we see it as an important opportunity for SGN to have a near term impact in terms of reducing emissions and benefitting rural communities.

Hydrogen - Another strong area of focus for the CSEG has been around SGN's ambitions on hydrogen and the major projects that it is undertaking to help inform government policy on domestic heat decarbonisation and to support the development of hydrogen in line with the net zero strategy.

Although there have been some delays on the H100 Fife project linked to global supply chain issues, we are happy with the progress being made and the level of support for / interest in the project, reflecting the strong engagement noted above. The first customers will be connected in 2024.

We have also seen effective engagement on the LTS Futures project to test the use of hydrogen in an existing decommissioned pipe where again local communities needed to be informed and reassured about what was proposed. We would be keen to hear more about this project as it progresses.

³ This targets biomethane sites where there is a potential to intervene to increase injection rates through eg reverse compression, reduced propane injection, and pressure management to optimise a site's ability to flow.

We were very pleased to see the plans being developed for the Scottish Independent Undertakings (SIUs) to be used as potential testbeds for locally produced biomethane or hydrogen. This was something that we had pressed SGN hard to look at during the development of the Business Plan, providing both an interesting standalone network opportunity but also helping reduce costs as gas would no longer need to be shipped by tanker from overseas and then by road across GB. In particular SGN are working with RWE to use constrained wind from their onshore windfarms to produce green hydrogen and are also exploring opportunities for local production of biomethane (see above). These are exciting opportunities that we will want to keep under review.

We have also noted the extent to which some of SGN's hydrogen activity is taking place in their unregulated business, in particular where they are looking to serve major businesses or where hydrogen production or storage is involved. SGN also have a JV with Vital Energy on heat networks and are involved in some biomethane projects. Although the CEG was established to focus on the regulated business, we do consider that it is important context for us to understand these key developments in the unregulated business, including being clear on any governance implications.

Overall there is significant policy uncertainty around the future of gas and we fully support the work that SGN and the other GDNs are doing to provide evidence that the practical challenges with hydrogen can be addressed. We are pleased that SGN now seems to be taking a more mature and realistic stance around the future role of hydrogen in domestic heat (ie as one of a number of solutions). However, we remain unclear what the range of future scenarios are that SGN is planning against in terms of reduced gas demand, and how these play out across its different geographies, recognising that the DESNZ heat decision in 2026 is unlikely to provide full clarity. We will be exploring this further with them as part of our work on GD3.

As a CSEG we share SGN's view of hydrogen as being an obvious flexible vector that could be used for energy storage (as gas is now). We also see the value of blending in creating a market for hydrogen.

The CSEG have frequently returned to the question of how to ensure a balanced debate on these issues. It is important that SGN are seen as authentic and not driven by self-interest. As such the CSEG agree with SGN that there is an important role for the FSO in taking a whole system view and also for the ENA in bringing together the gas and electricity sectors. We welcome the conversations that Mark Wild has been having at this level to help take this forward.

Preparing for GD3

Aware of the very tight timetable that we all had to work under to develop the GD2 Business Plan, SGN and the CSEG were keen to get ahead this time round and had various discussions around the likely overall timeline, the planned approach to stakeholder and consumer engagement, and the big questions that SGN would need to answer in developing their Plan (learning from GD2 which had been developed bottom up).

We are pleased that SGN has been moving ahead and has brought on board a partner to work with on its consumer research which has now kicked off. This has benefitted from CSEG input to move to a more deliberative approach, to try to get richer insights that SGN can act on rather than simply the usual measures of consumer acceptability etc (which aren't very actionable).

However, we are aware that it has been very difficult to really plan effectively for GD3 faced with significant uncertainty from Ofgem about whether the RIIO model would continue and if it did

whether there would be a full 5 year control or a shorter rollover. While there is more clarity now about the broad approach (ie RIIO based) we are still awaiting the Ofgem FSNR framework decision⁴ and the consultation on the sector methodology.

Given the importance of this context, the CSEG put in a response to the Ofgem consultation on the Future of Systems and Network Regulation (submitted in May 2023) highlighting the need for early decisions, stressing the strategic challenges facing the sector and highlighting the importance of outputs around vulnerability as well as the value of engagement (including the role of the CEG).

The big questions that we have identified are around the role of networks in helping tackle fuel poverty or in industrial heat de-carbonisation; how far plans might differ Scotland v South; how to deal with emerging issues like air quality; how to manage asset stranding risks and inter-generational equity. We welcome the way SGN started by identifying these questions – and also considering how they might play into engagement. However, it is not clear as yet how far this framework will actually shape their plan.

More recently we are very pleased that SGN have supported the CSEG in instigating debates with stakeholders around some of these more complex issues by hosting panel sessions in Scotland and the South. We have written up our reflections on these sessions which we hope will be of value to SGN in developing their Plan and could also help inform wider policy debates going forward.

Conclusion

2022/23 was a difficult year for SGN and across a number of sectors. As we noted last year, SGN faces resource and supply chain challenges in delivering its core responsibility to maintain a secure and safe gas supply. It also faces increasing demands for support to its most vulnerable customers who are struggling to afford to heat their homes. We are confident that SGN recognises these challenges and that Mark Wild, as CEO, is very focussed on how to address them. Delivering on their obligations today is essential – both to ensure consumers are protected but also to give SGN credibility in discussions around the future of gas and its role within that.

While we welcome the focus on these immediate issues, SGN also needs to continue its work on helping tackle the global challenge of climate change. Perhaps inevitably we have seen a clear and continuing focus on enabling hydrogen to be a part of that solution. We welcome the energy and innovative spirit that SGN put into this. However, we have cautioned against over-selling the role that hydrogen is likely to play in domestic heat decarbonisation as local authorities grapple with what approach they should take. We would like to see a clearer delineation of those regions where hydrogen remains a real contender (eg because they are close to industrial clusters) and where realistically it is unlikely and more thought needs to be put into moving ahead with other solutions. We would also like to see early thinking on how ultimately one might exit from gas to help inform short term decisions around network investment. We see this as a key issue as we look ahead to GD3.

We would also like to see an equal focus on what can be done to reduce methane emissions in the near term. The IPCC have made clear that this is almost the only way to avoid irreversible climate change (as reducing short-lived methane emissions is the only way to reduce the stock of

⁴ Published 26 October

greenhouse gases in the atmosphere). We will therefore continue to press SGN to do all it can to minimise leakage and encourage Ofgem to strengthen the incentives in this area.

Looking back over the second year of GD2 we are pleased that as a CSEG we have a growing influence and having more time and a more strategic approach to the forward agenda means we have been able to cover a much wider range of issues than we did in 21/22. We expect that this will only become more important as we look to next year and the submission of the Business Plan.